

# Metal Industry Indicators

## Indicators of Domestic Primary Metals, Steel, Aluminum, and Copper Activity

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March 2010

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The primary metals leading index decreased substantially in February, and its 6-month smoothed growth rate slowed from the rapid climb of last year. Even so, the leading index growth rate is still indicating that the recovery in primary metals activity is likely to continue. In January, the metals price leading index declined for the first month since 2008, and its growth rate tumbled from the record highs achieved in the second half of 2009. Nonetheless, the growth rate is still relatively high and is indicating that metal prices are likely to continue to grow, although at a slower rate than last year.

The primary aluminum and the aluminum mill products indexes are suspended because of discontinued availability of industry-specific historical data. The USGS will continue to calculate the steel and copper composite indexes.

The **primary metals leading index** decreased 1.7% in February to 138.7 from a revised 141.1 in January. The index's 6-month smoothed growth rate, a compound annual rate that measures the near-term trend, declined to 11.6% from a revised 17.3% in January. A growth rate above +1.0% is usually a sign of an upward near-term trend for future metals activity, while a growth rate below -1.0% indicates a downward trend. For an explanation of these indexes and a definition of the primary metals industry, [see page 10](#).

All four of the index's available components decreased in February. A drop in the JOC-USGS metals price leading index growth rate contributed -0.6 percentage points to the overall decrease in the leading index in February. The stock price index combining construction and farm machinery companies and industrial machinery companies fell for the first month since July and pulled the leading index down 0.4 percentage points. The Institute for Supply Management's PMI decreased in February, but remained above the threshold that denotes an increase in future U.S. manufacturing activity. It also contributed -0.4 percentage points to the leading index. A slightly shorter average workweek in primary metals establishments in February contributed another -0.2 percentage points. The primary metals leading index will likely be revised next month when the remaining four components become available.

Despite recent declines, the primary metals leading index growth rate is indicating that the recovery in metals industry activity growth will likely continue. The U.S. economy, particularly the manufacturing sector, appears to be on a sustainable growth path

strong to support modest domestic metals demand. The U.S. primary metals industry could also be boosted by the metals demand from emerging economies.

The **steel leading index** increased 0.5% in January, the latest month for which it is available, to 107.3 from a revised 106.8 in December. Its 6-month smoothed growth rate increased to 9.1% from a revised 8.9% in December. Most of its components increased, with the largest positive contributions coming from the rising S&P stock index for steel companies and the steel scrap price growth rate. In contrast, the M2 money supply growth rate slipped into negative territory, offsetting much of the gains of the other indicators. Slowdowns in car and light truck sales and new housing permits issued also held down the leading index. Nevertheless, the steel leading index growth rate continues to climb, indicating that the recovery in U.S. steel industry activity is likely to continue in the near term.

The **copper leading index** decreased 0.6% in January to 117.3 from 118.0 in December, and its 6-month smoothed growth rate declined to 10.9% from a revised 13.6% in December. Movement among its components was mixed, with only the S&P stock price index for building materials companies making a significant positive contribution. New orders for nonferrous metal products, the copper price, and the index for new housing permits issued retreated from their December surges, making sizable negative contributions. The copper leading index growth rate continues to indicate a recovery in copper industry activity in the near term.

## Metals Price Growth Still on Horizon

The **metals price leading index** decreased 1.0% to 116.6 in January, the latest month for which it is available, from 117.8 in December. Its 6-month smoothed growth rate declined sharply to 17.6% in January from 24.2% in December. The growth rate of the trade-weighted average exchange value of other major currencies against the U.S. dollar declined for the third consecutive month, after eight increases. It contributed -0.5 percentage points to the net decrease in the leading index. A setback in the growth rate of the inflation-adjusted value of new orders for U.S. nonferrous metal products contributed another -0.5 percentage points. The growth rate of the Organization for Economic Cooperation and Development (OECD) Total Leading Index retreated only slightly in January, but contributed -0.2 percentage points. In contrast, the wider yield spread between the U.S. 10-year Treasury Note and the federal funds rate contributed 0.2

percentage points to the leading index. The metals price leading index signals major changes in the growth rate of nonferrous metals prices an average of 8 months in advance.

The growth rate of the inflation-adjusted value of U.S. nonferrous metal products inventories, which is an indicator of supply, increased for the first time in over a year in January. However, the inventory growth rate is still deeply negative. Low inventories and the relatively high metals price leading index growth rate suggest that metal prices could continue to grow modestly in the near term.

The business cycle and inventories are only two factors in metal price determination. Other factors that affect prices include changes in metals production, speculation, strategic stockpiling, foreign exchange rates, geopolitical instability, and production costs.

**Table 1.**  
**Leading Index of Metal Prices and Growth Rates of the Nonferrous Metals Price Index, Inventories of Nonferrous Metal Products, and Selected Metal Prices**

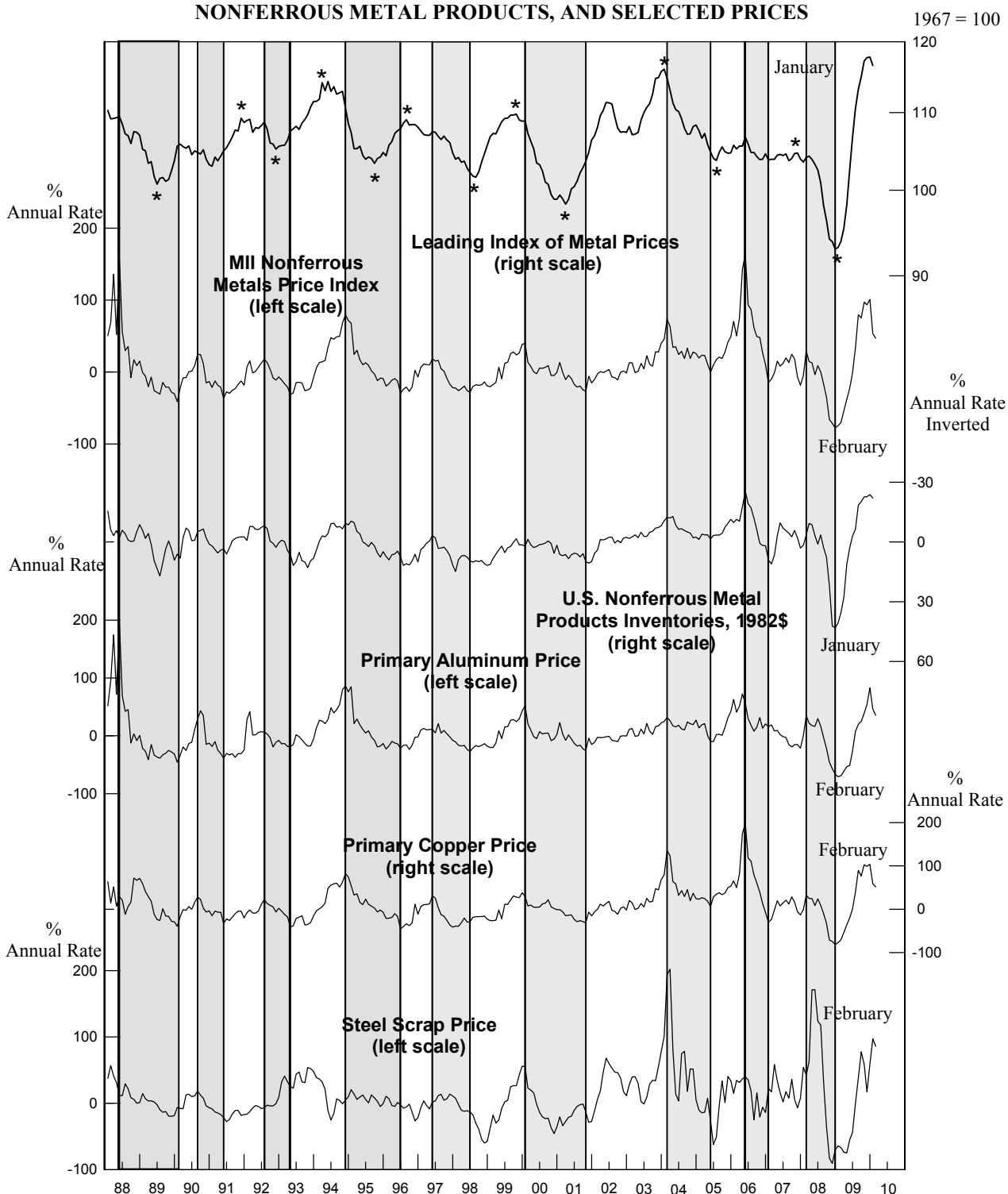
	Leading Index of Metal Prices (1967=100)	Six-Month Smoothed Growth Rates				
		MII Nonferrous Metals Price Index	U.S. Nonferrous Metal Products Inventories (1982\$)	Primary Aluminum	Primary Copper	Steel Scrap
<b>2009</b>						
January	93.2	-74.7	40.7	-70.8	-76.9	-64.3
February	93.9r	-70.2	35.5	-69.3	-70.3	-67.0
March	95.4r	-54.1	27.8	-61.6	-53.5	-74.0
April	98.2r	-38.1	11.1	-53.4	-35.6	-74.9
May	102.5r	-22.6	2.9	-51.2	-19.8	-55.1
June	106.7	-1.6	-2.9	-26.9	0.2	-44.0
July	110.5r	33.3	-6.5	7.2	39.7	-0.7
August	113.2	79.3	-18.5	19.8	89.7	38.1
September	114.9r	75.2	-20.3r	25.2	77.0	77.4
October	117.2	97.3	-22.6r	38.8	102.8	58.6
November	117.7	93.4	-23.7r	54.2	98.9	17.2
December	117.8	100.8	-23.7r	82.9	103.5	58.8
<b>2010</b>						
January	116.6	53.2	-22.1	46.2	59.0	96.9
February	NA	45.9	NA	35.3	51.7	85.8

NA: Not available r: Revised

**Note:** The components of the Leading Index of Metal Prices are the spread between the U.S. 10-year Treasury Note and the federal funds rate, and the 6-month smoothed growth rates of the deflated value of new orders for nonferrous metal products, the Organization for Economic Cooperation and Development (OECD) Total Leading Index, and the reciprocal of the trade-weighted average exchange value of the U.S. dollar against other major currencies. The Metal Industry Indicators (MII) Nonferrous Metals Price Index measures changes in end-of-the-month prices for primary aluminum, copper, lead, and zinc traded on the London Metal Exchange (LME). The steel scrap price used is the price of No. 1 heavy melting. Inventories consist of the deflated value of finished goods, work in progress, and raw materials for U.S.-produced nonferrous metal products (NAICS 3313, 3314, & 335929). Six-month smoothed growth rates are based on the ratio of the current month's index or price to its average over the preceding 12 months, expressed at a compound annual rate.

**Sources:** U.S. Geological Survey (USGS); American Metal Market (AMM); the London Metal Exchange (LME); U.S. Census Bureau; the Organization for Economic Cooperation and Development (OECD); and Federal Reserve Board.

**CHART 1.  
LEADING INDEX OF METAL PRICES AND GROWTH RATES  
OF NONFERROUS METALS PRICE INDEX, INVENTORIES OF  
NONFERROUS METAL PRODUCTS, AND SELECTED PRICES**



**Table 2.**  
**The Primary Metals Industry Indexes and Growth Rates**

	Leading Index		Coincident Index	
	(1977 = 100)	Growth Rate	(1977 = 100)	Growth Rate
<b>2009</b>				
February	123.1r	-22.7r	84.4r	-27.5r
March	121.2	-22.7	82.3	-28.3
April	122.0	-19.3	81.0	-27.7
May	124.5	-13.4	79.7	-26.9
June	126.3	-8.3	78.9	-25.1
July	128.9	-2.1	82.1	-15.9
August	132.5	5.3	83.0	-10.7
September	133.6r	8.6r	83.0	-7.5r
October	135.3	12.3r	83.9r	-2.6r
November	138.5r	17.0r	86.7	6.1r
December	141.4r	20.0r	88.9r	12.4
<b>2010</b>				
January	141.1r	17.3r	89.0	12.9
February	138.7	11.6	NA	NA

**NA:** Not available    **r:** Revised

**Note:** Growth rates are expressed as compound annual rates based on the ratio of the current month's index to the average index during the preceding 12 months.

**Table 3.**  
**The Contribution of Each Primary Metals Index Component to the Percent Change in the Index from the Previous Month**

Leading Index		January	February
1. Average weekly hours, primary metals (NAICS 331)		0.1r	-0.2
2. Weighted S&P stock price index, machinery, construction and farm and industrial (December 30, 1994 = 100)		0.2r	-0.4
3. Ratio of price to unit labor cost (NAICS 331)		0.3	NA
4. JOC-USGS metals price index growth rate		-0.1	-0.6
5. New orders, primary metal products, (NAICS 331 & 335929) 1982\$		0.0	NA
6. Index of new private housing units authorized by permit		-0.2	NA
7. Growth rate of U.S. M2 money supply, 2005\$		-0.9	NA
8. PMI		0.4r	-0.4
Trend adjustment		0.0	0.0
Percent change (except for rounding differences)		-0.2r	-1.6
Coincident Index		December	January
1. Industrial production index, primary metals (NAICS 331)		0.9r	0.1
2. Total employee hours, primary metals (NAICS 331)		0.5r	0.2
3. Value of shipments, primary metals products, (NAICS 331 & 335929) 1982\$		1.0r	-0.2
Trend adjustment		0.1	0.1
Percent change (except for rounding differences)		2.5r	0.2

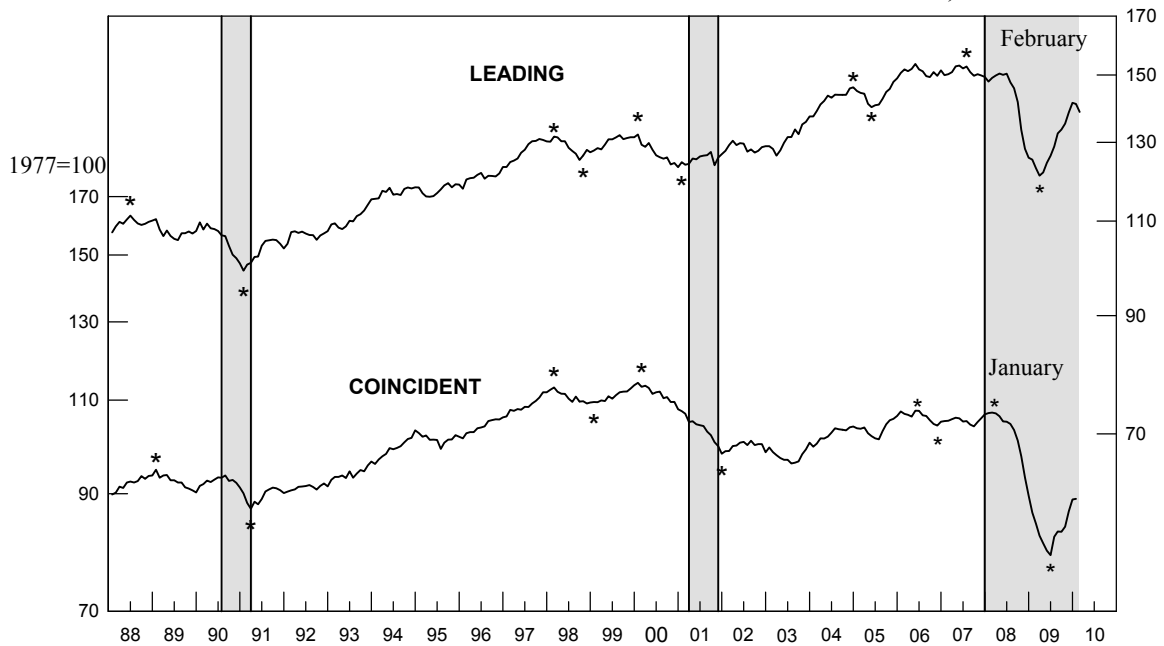
**Sources:** Leading: 1, Bureau of Labor Statistics; 2, Standard & Poor's and U.S. Geological Survey; 3, U.S. Geological Survey; 4, Journal of Commerce and Economic Cycle Research Institute, Inc.; 5, U.S. Census Bureau and U.S. Geological Survey; 6, U.S. Census Bureau and U.S. Geological Survey; 7, Federal Reserve Board, Conference Board, and U.S. Geological Survey; and 8, Institute for Supply Management. Coincident: 1, Federal Reserve Board; 2, Bureau of Labor Statistics and U.S. Geological Survey; 3, U.S. Census Bureau and U.S. Geological Survey. All series are seasonally adjusted, except 2, 3, and 4 of the leading index.

**NA:** Not available    **r:** Revised

**Note:** A component's contribution, shown in Tables 3, 5, 7, and 9, measures its effect, in percentage points, on the percent change in the index. Each month, the sum of the contributions plus the trend adjustment equals (except for rounding differences) the index's percent change from the previous month.

**CHART 2.**

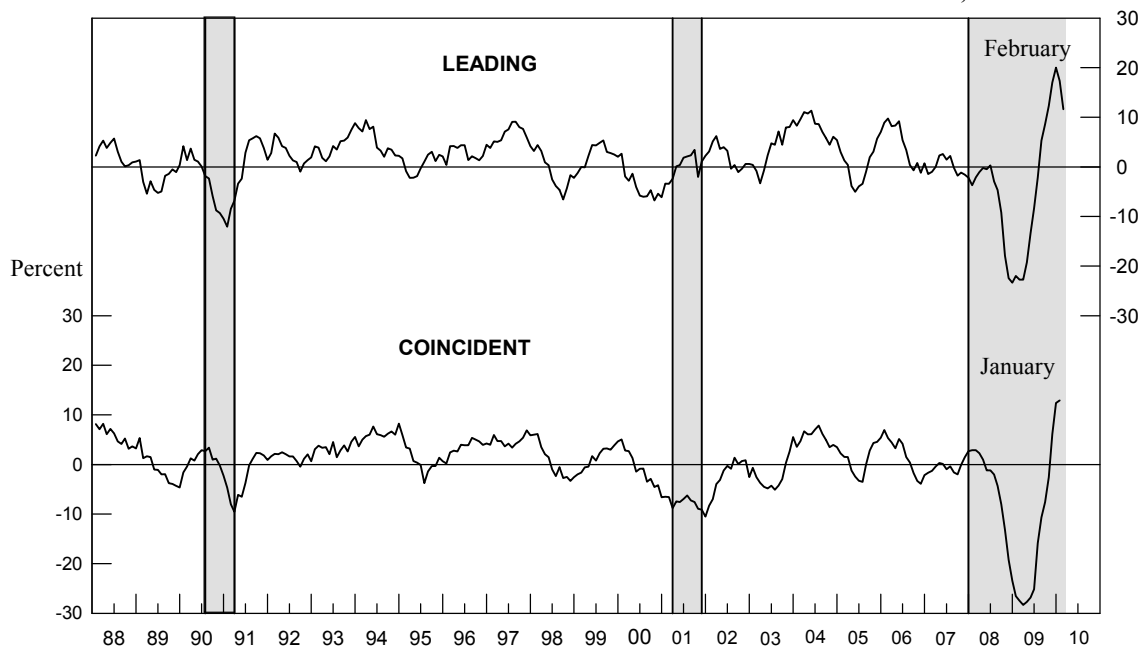
**PRIMARY METALS: LEADING AND COINCIDENT INDEXES, 1988-2010** 1977=100



Shaded areas are business cycle recessions. Asterisks (\*) signify peaks (the end of an expansion) and troughs (the end of a downturn) in the economic activity reflected by the indexes.

**CHART 3.**

**PRIMARY METALS: LEADING AND COINCIDENT GROWTH RATES, 1988-2010** Percent



Shaded areas are business cycle recessions.

The growth rates are expressed as compound annual rates based on the ratio of the current month's index to its average level during the preceding 12 months.

**Table 4.**  
**The Steel Industry Indexes and Growth Rates**

	Leading Index		Coincident Index	
	(1977 = 100)	Growth Rate	(1977 = 100)	Growth Rate
<b>2009</b>				
February	100.7	-17.6	84.8	-24.3
March	99.7r	-17.2	83.3	-24.3
April	99.2r	-15.6	80.7	-26.1
May	101.3	-9.8	80.3	-23.9
June	102.2	-5.6	80.7	-20.3
July	101.5	-4.2	82.9	-13.2
August	104.3	3.0	84.3	-7.5
September	101.7	-0.4	84.1	-5.1r
October	104.2r	5.0r	87.3	4.4
November	105.2r	6.8r	88.8	9.6
December	106.8r	8.9r	90.8r	14.7r
<b>2010</b>				
January	107.3	9.1	91.4	15.5

r: Revised

**Note:** Growth rates are expressed as compound annual rates based on the ratio of the current month's index to the average index during the preceding 12 months.

**Table 5.**  
**The Contribution of Each Steel Index Component to the Percent Change in the Index from the Previous Month**

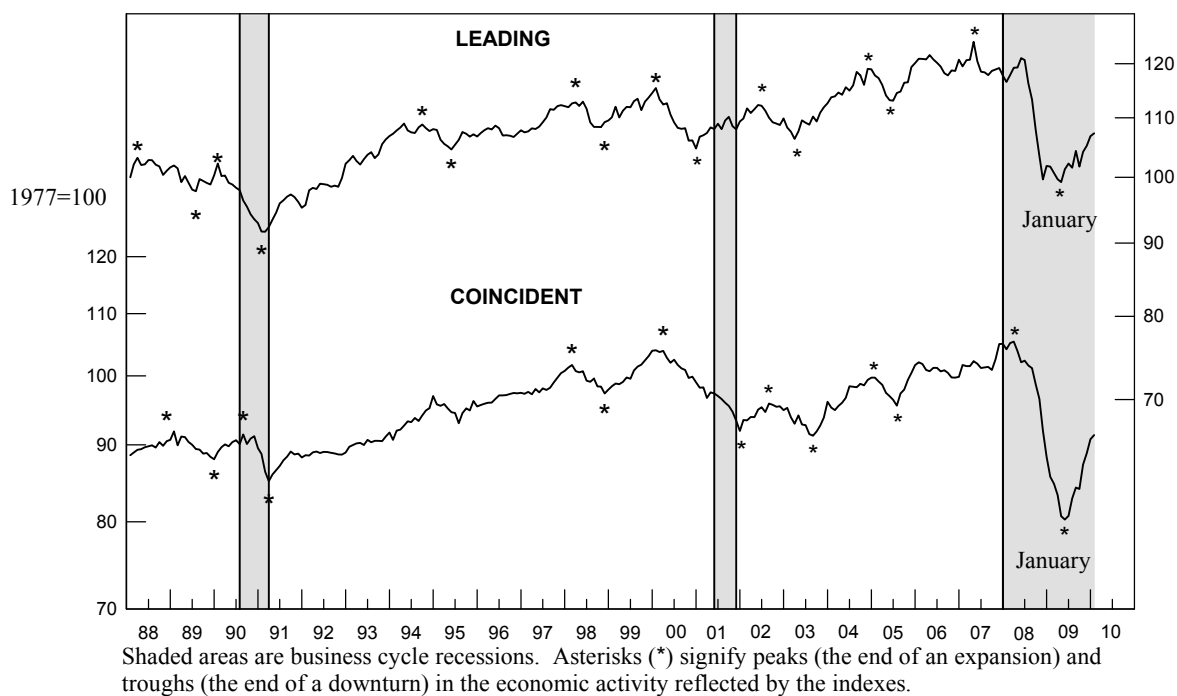
Leading Index	December	January
1. Average weekly hours, iron and steel mills (NAICS 3311 & 3312)	0.4	0.0
2. New orders, iron and steel mills (NAICS 3311 & 3312), 1982\$	0.3r	0.2
3. Shipments of household appliances, 1982\$	-0.1r	0.2
4. S&P stock price index, steel companies	0.6	0.5
5. Retail sales of U.S. passenger cars and light trucks (units)	0.1	-0.2
6. Growth rate of the price of steel scrap (#1 heavy melting, \$/ton)	-0.3	0.5
7. Index of new private housing units authorized by permit	0.5	-0.2
8. Growth rate of U.S. M2 money supply, 2005\$	-0.3r	-0.9
9. PMI	0.1	0.4
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	1.3r	0.5
<b>Coincident Index</b>		
1. Industrial production index, iron and steel products (NAICS 3311 & 3312)	0.9r	-0.1
2. Value of shipments, iron and steel mills (NAICS 3311 & 3312), 1982\$	0.8r	0.4
3. Total employee hours, iron and steel mills (NAICS 3311 & 3312)	0.3	0.3
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	2.1r	0.7

**Sources:** Leading: 1, Bureau of Labor Statistics; 2, U.S. Census Bureau and U.S. Geological Survey; 3, U.S. Census Bureau and U.S. Geological Survey; 4, Standard & Poor's; 5, U.S. Bureau of Economic Analysis and American Automobile Manufacturers Association; 6, Journal of Commerce and U.S. Geological Survey; 7, U.S. Census Bureau and U.S. Geological Survey; 8, Federal Reserve Board, Conference Board, and U.S. Geological Survey; and 9, Institute for Supply Management. Coincident: 1, Federal Reserve Board; 2, U.S. Census Bureau and U.S. Geological Survey; 3, Bureau of Labor Statistics and U.S. Geological Survey. All series are seasonally adjusted, except 4 and 6 of the leading index.

r: Revised

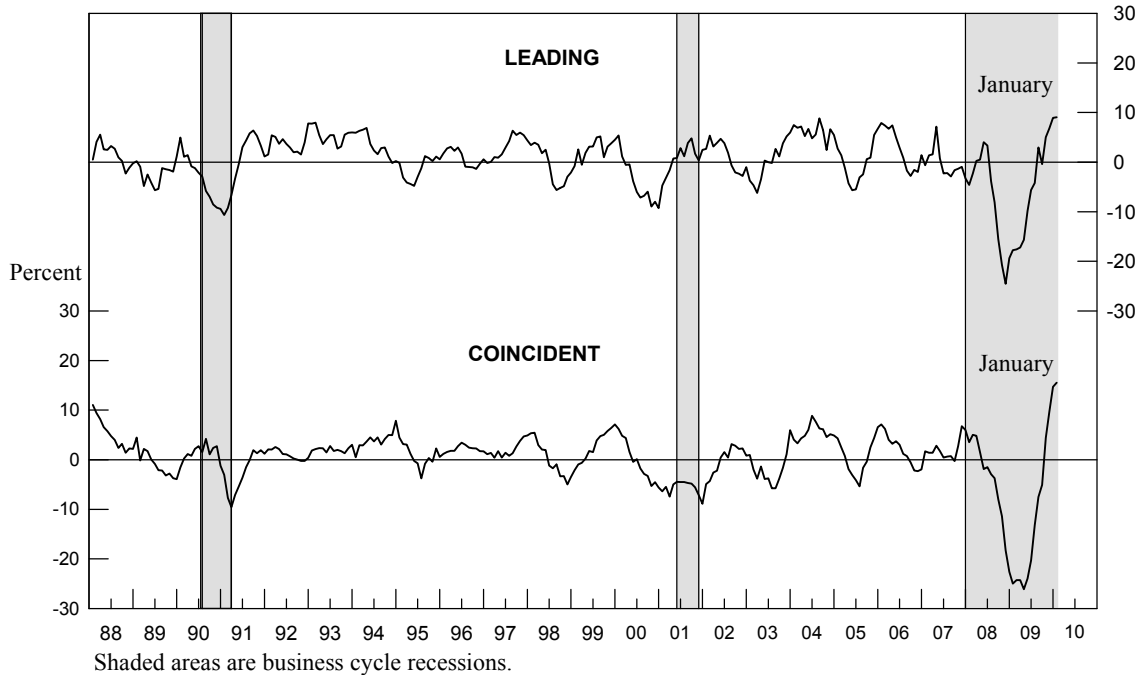
**CHART 4.**  
**STEEL: LEADING AND COINCIDENT INDEXES, 1988-2010**

1977=100



**CHART 5.**  
**STEEL: LEADING AND COINCIDENT GROWTH RATES, 1988-2010**

Percent



The growth rates are expressed as compound annual rates based on the ratio of the current month's index to its average level during the preceding 12 months.

**Table 6.**  
**The Copper Industry Indexes and Growth Rates**

	Leading Index		Coincident Index	
	(1977 = 100)	Growth Rate	(1977 = 100)	Growth Rate
<b>2009</b>				
February	103.6	-23.1	94.9	-12.9
March	102.3	-22.6	96.1	-9.7
April	105.7	-15.5	94.1	-12.1
May	108.1	-9.7	93.3	-12.2
June	110.4	-3.8	94.5	-8.5
July	113.3	3.2	97.4	-1.7
August	117.3	11.5	96.5	-2.4
September	113.6r	5.8r	95.2	-3.9
October	115.5	10.3	96.0r	-1.2r
November	115.9	10.9	98.7r	4.9r
December	118.0	13.6r	98.8r	5.4r
<b>2010</b>				
January	117.3	10.9	99.2	5.9

r: Revised

**Note:** Growth rates are expressed as compound annual rates based on the ratio of the current month's index to the average index during the preceding 12 months.

**Table 7.**  
**The Contribution of Each Copper Index Component to the Percent Change in the Index from the Previous Month**

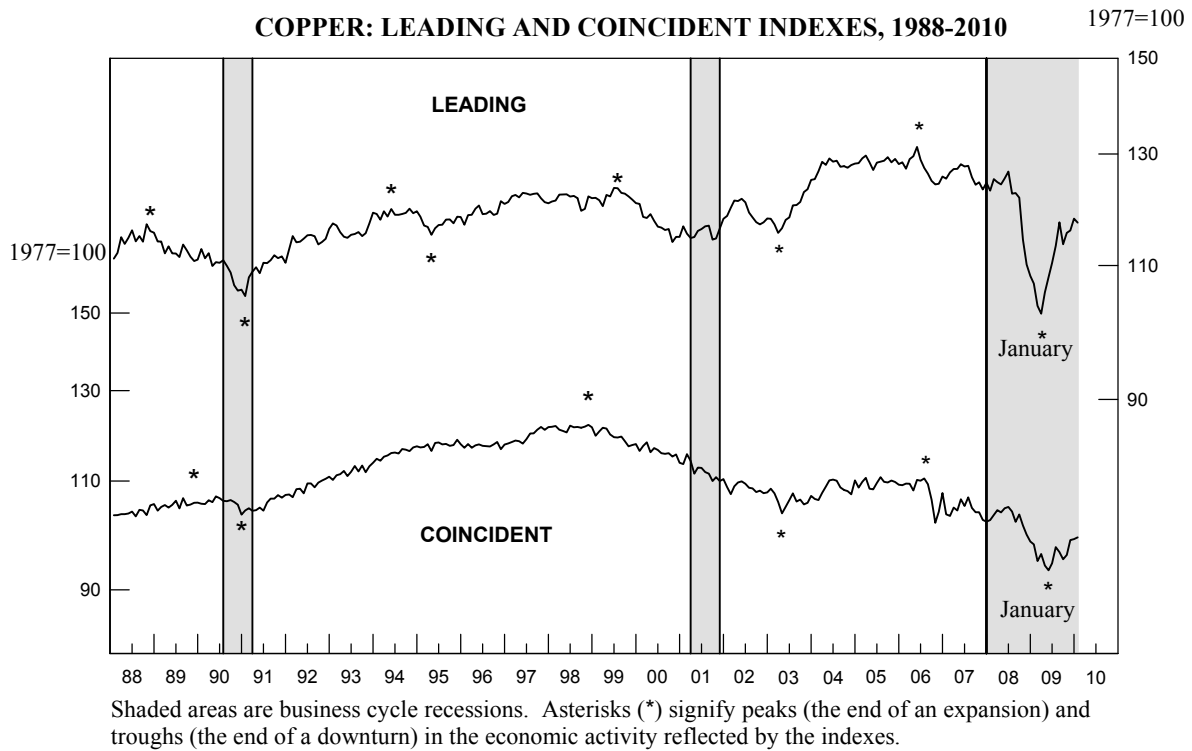
Leading Index	December	January
1. Average weekly overtime hours, copper rolling, drawing, extruding, and alloying (NAICS 33142)	0.0	0.0
2. New orders, nonferrous metal products, (NAICS 3313, 3314, & 335929) 1982\$	0.3r	-0.4
3. S&P stock price index, building products companies	0.2	0.4
4. LME spot price of primary copper	0.4	-0.4
5. Index of new private housing units authorized by permit	0.7	-0.3
6. Spread between the U.S. 10-year Treasury Note and the federal funds rate	0.2	0.1
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	1.8r	-0.6
<b>Coincident Index</b>		
1. Industrial production index, primary smelting and refining of copper (NAICS 331411)	0.1r	0.2
2. Total employee hours, copper rolling, drawing, extruding, and alloying (NAICS 33142)	0.0	0.0
3. Copper refiners' shipments (short tons)	NA	NA
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	0.2r	0.3

**Sources:** Leading: 1, Bureau of Labor Statistics; 2, U.S. Census Bureau and U.S. Geological Survey; 3, Standard & Poor's; 4, London Metal Exchange; 5, U.S. Census Bureau and U.S. Geological Survey; 6, Federal Reserve Board and U.S. Geological Survey. Coincident: 1, Federal Reserve Board; 2, Bureau of Labor Statistics; 3, American Bureau of Metal Statistics, Inc. and U.S. Geological Survey. All series are seasonally adjusted, except 3, 4, and 6 of the leading index.

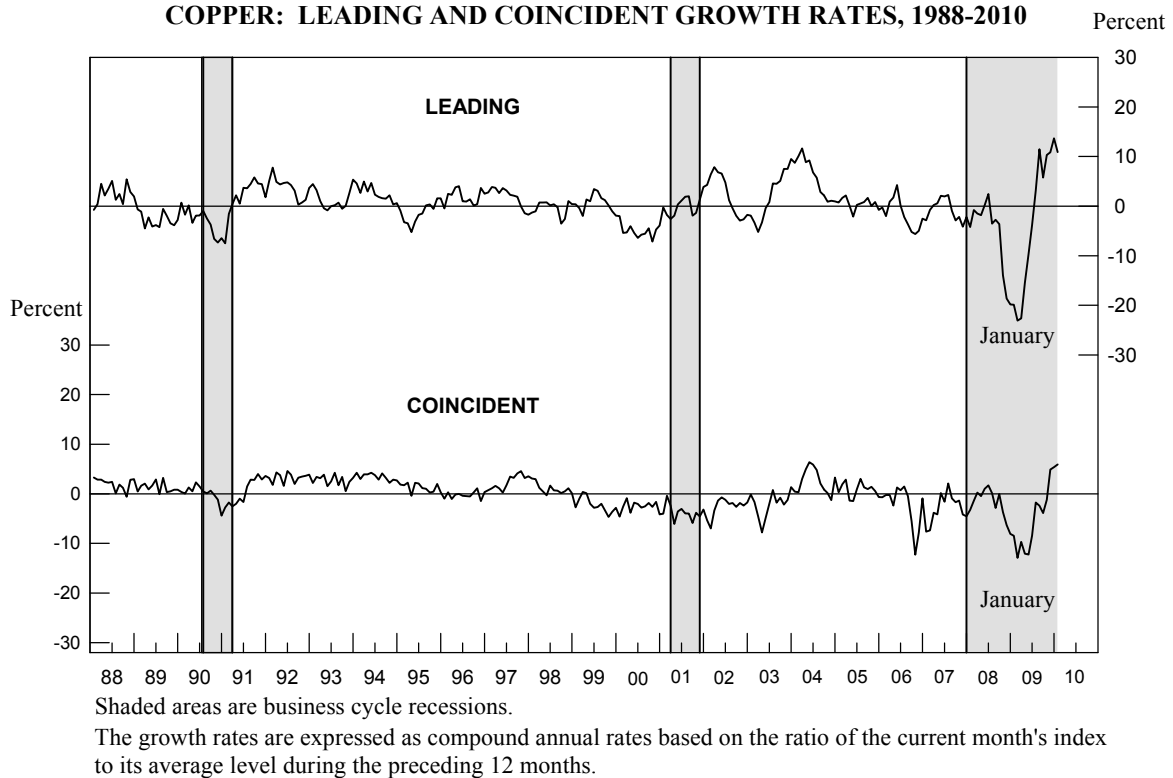
r: Revised    NA: Not available



**CHART 6.**  
**COPPER: LEADING AND COINCIDENT INDEXES, 1988-2010**



**CHART 7.**  
**COPPER: LEADING AND COINCIDENT GROWTH RATES, 1988-2010**



## Explanation

Each month, the U.S. Geological Survey tracks the effects of the business cycle on five U.S. metal industries by calculating and publishing composite indexes of leading and coincident indicators. Wesley Mitchell and Arthur Burns originated the cyclical-indicators approach for the economy as a whole at the National Bureau of Economic Research in the mid-1930s. Over subsequent decades this approach was developed and refined, mostly at the National Bureau, under the leadership of Geoffrey H. Moore.<sup>1</sup>

A business cycle can briefly be described as growth in the level of economic activity followed by a decline succeeded by further growth. These alternating periods of growth and decline do not occur at regular intervals. Composite indexes, however, can help determine when highs and lows in the cycle might occur. A composite index combines cyclical indicators of diverse economic activity into one index, giving decision makers and economists a single measure of how changes in the business cycle are affecting economic activity.

The indicators in the metal industry leading indexes historically give signals several months in advance of major changes in a coincident index, a measure of current metal industry activity. Indicators that make up the leading indexes are, for the most part, measures of anticipations or new commitments to various economic activities that can affect the metal industries in the months ahead.

Composite coincident indexes for the metal industries consist of indicators for production, shipments, and total employee hours worked. As such, the coincident indexes can be regarded as measures of the economic health of the metal industries.

The metal industry coincident indexes reflect industry activity classified by the U.S. Standard Industrial Classification (SIC) and the North American Industry Classification System (NAICS). Of the five metal industries, primary metals (NAICS 331) is the broadest, containing 25 different metal processing industries. Steel, aluminum, and copper are specific industries within the primary metals group.

The SIC was the main vehicle used by the U.S. Government and others in reporting industry economic statistics throughout most of the last century. Starting with the 1997 U.S. Economic Census, the U.S. Government began using the NAICS, which classifies economic data for industries in Canada, Mexico, and the United States. In general, metal industry indexes starting in 1997 begin to reflect the NAICS classification, while indexes for earlier years follow the SIC. Hence, composite indexes from 1997 forward are not entirely consistent with those of earlier years.

The largest change to primary metals because of the NAICS deals with other communication and energy wire manufacturing (NAICS 335929). Under NAICS, this manufacturing has been removed from primary metals and added to electrical equipment, appliance, and component manufacturing. Because monthly shipments and new orders for this wire are not available, the USGS is estimating their values from 1997 onward and adding them to the appropriate metal industry indicators and indexes to maintain consistency.

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<sup>1</sup>Business Cycle Indicators, A monthly report from The Conference Board (March 1996).

There are other small changes to the primary metals industry because of the switch to the NAICS. Coke oven activity not done by steel mills, for example, is removed and alumina refining, a part of industrial inorganic chemical manufacturing under the SIC, is added. Since the historic trends of the composite indexes are not affected by these small changes, the USGS is not making specific adjustments to the indexes for them for the periods before and after 1997.

The metal industry leading indexes turn before their respective coincident indexes an average of 8 months for primary metals and 7 months for steel and copper. The average lead time for the primary aluminum leading index is 6 to 8 months, and the average lead time for the aluminum mill products leading index is 6 months.

The leading index of metal prices, also published in the *Metal Industry Indicators*, is designed to signal changes in a composite index of prices for primary aluminum, copper, lead, and zinc traded on the London Metal Exchange. On average, this leading index indicates significant changes in price growth about 8 months in advance.

The growth rate used in the *Metal Industry Indicators* is a 6-month smoothed growth rate at a compound annual rate, calculated from a moving average. Moving averages smooth fluctuations in data over time so that trends can be observed. The 6-month smoothed growth rate is based upon the ratio of the latest monthly value to the preceding 12-month moving average.

$$\left[ \left( \frac{\text{current value}}{\text{preceding 12-month moving average}} \right)^{\frac{12}{6.5}} - 1.0 \right] * 100$$

Because the interval between midpoints of the current month and the preceding 12 months is 6.5 months, the ratio is raised to the 12/6.5 power to derive a compound annual rate.

The growth rates measure the near-term industry trends. They, along with other information about the metal industries and the world economy, are the main tools used to determine the outlook of the industries. A 6-month smoothed growth rate above +1.0% usually means increasing growth; a rate below -1.0% usually means declining growth.

**The next update for these indexes is scheduled for release on the World Wide Web at 10:00 a.m. EDT, Friday, April 16. The address for *Metal Industry Indicators* on the World Wide Web is: <http://minerals.usgs.gov/minerals/pubs/mii/>**

The *Metal Industry Indicators* is produced at the U.S. Geological Survey by the Minerals Information Team. The report is prepared by Gail James (703-648-4915; e-mail: [gjames@usgs.gov](mailto:gjames@usgs.gov)) and Ken Beckman (703-648-4916; e-mail: [kbeckman@usgs.gov](mailto:kbeckman@usgs.gov)). The former Center for International Business Cycle Research, under the direction of Dr. Geoffrey H. Moore, and the former U.S. Bureau of Mines developed the metal industry leading and coincident indexes in the early 1990s. Customers can send mail concerning the *Metal Industry Indicators* to the following address:

U.S. Geological Survey  
Minerals Information Team  
988 National Center  
Reston, Virginia 20192